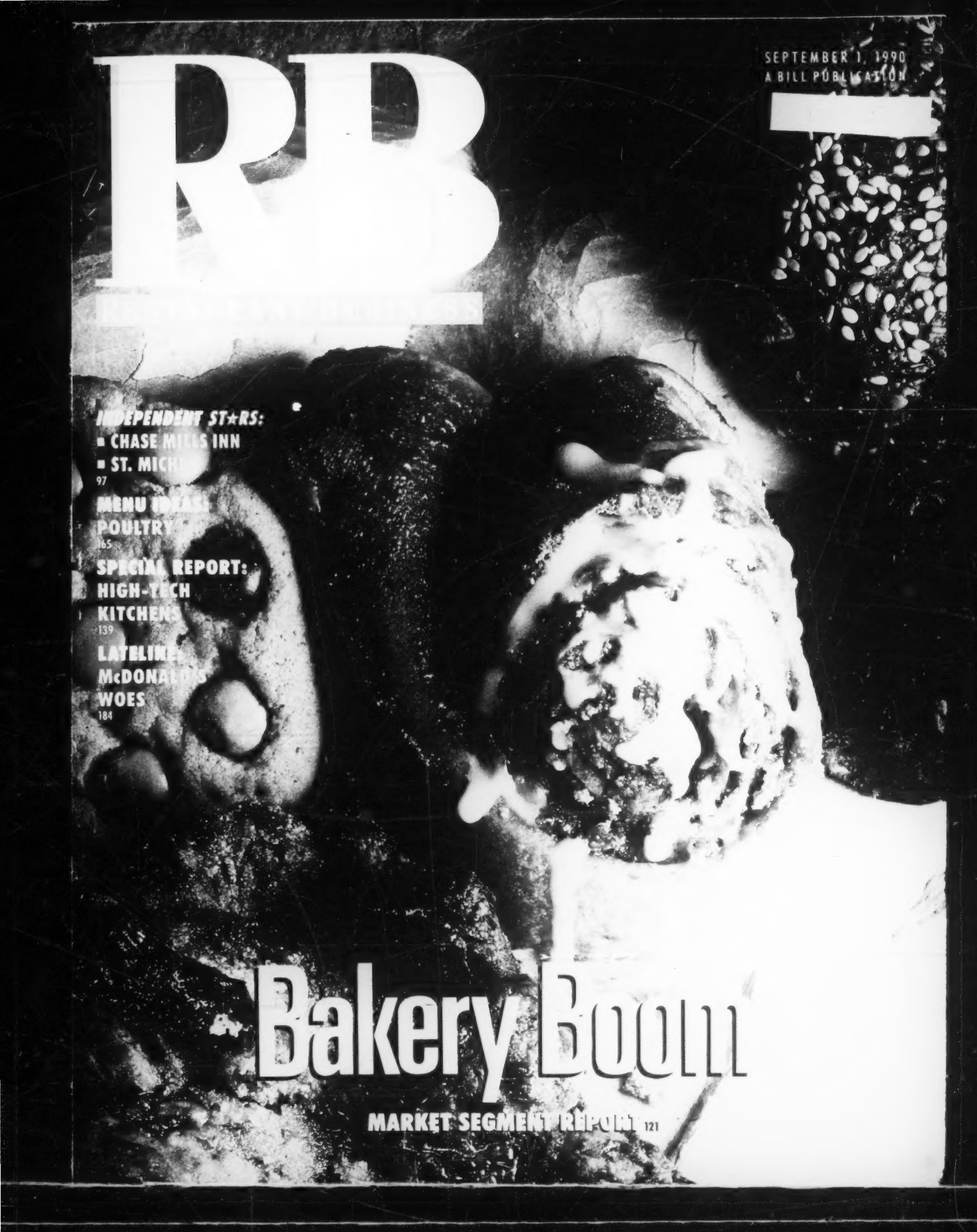
SEPTEMBER 1, 1990
A BILL PUBLICATION

RB



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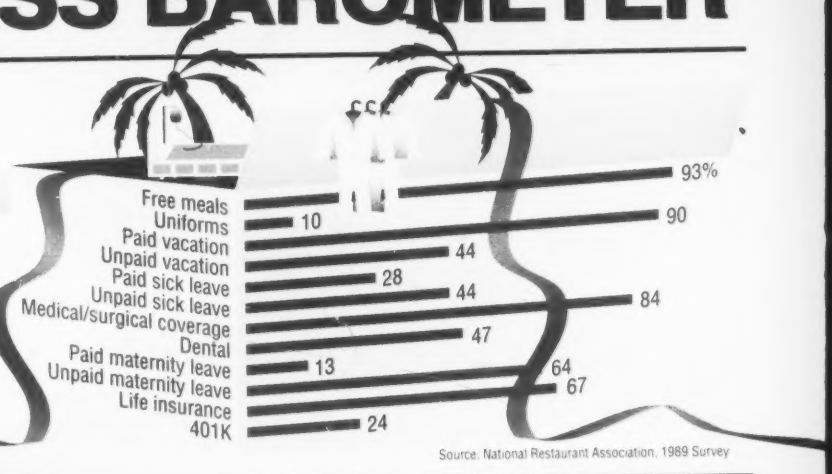
BUSINESS BAROMETER

Benefits for Hourly Foodservice Employees

(% of respondents who offer the following benefits)

How generous are foodservice employers when it comes to benefits for hourly employees? The NRA asked a random sample of members with annual sales of $1 million or more.



Source: National Restaurant Association, 1989 Survey

Convenience Store Industry Changing

Profits in the convenience store industry dropped in 1989, but sales growth continued, mainly because more stores were selling gasoline.

Fast-food purchases as a % of total store sales:

	1988	*1989*
Fresh sandwiches	2.1%	1.2%
Frozen sandwiches	1.2	0.8
Deli services	3.5	2.0
Food cooked on-site	1.5	0.9
Fountain drinks	2.8	3.7
Hot beverages	1.4	2.4

Fast-Food Investment Per New Store (urban stores):
1988 $21,900
1989 $33,900
Total Convenience Store Industry Profits (before taxes, in millions):
1988 $1,103
1989 $371

Source: National Association of Convenience Stores, 1990 State of the Convenience Store Industry Report

Why Americans Eat At Fast-Food Restaurants

In order to measure Americans' attitudes and behavior toward fast food, *The Washington Post* interviewed 1,002 randomly selected adults nationwide this past June.

Why do you eat at a fast-food restaurant?

It's fast	44%
It's something different	21
It's close to where you live or work	15
You like the food	6
It's a good place to eat with children	6
It's inexpensive	3
It's healthy and nutritious	1
Don't know	5

Source: *The Washington Post*

Charts by Peter K. Niceberg

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COVER STORY

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Cover photograph by John Uher.

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INDUSTRY REPORTS AVAILABLE

Reprints of the **1989 RESTAURANT GROWTH INDEX** and the **1990 MAJOR FORCES IN FRANCHISING** are available for $5 per copy. Direct inquiries to Editor Peter Berlinski, *Restaurant Business*, 633 Third Ave., New York, NY 10017.

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COVER STORY RESTAURANT GROWTH INDEX
For the 23rd year, *RB* offers its exclusive state-of-the-industry analysis. Presented in two sections—market segment reports and statistical tables—RGI functions as a complete tool for evaluating market growth potential. Included are reports on the eight major segments: separate eating & drinking places, retail, leisure, hotel/motel, business & industry, health care, student, and airline.

SPECIAL REPORT COMMUNITY SERVICE
This article will be the first of a series covering the industry's commitment to those who are less fortunate in our society. Part one examines helping feed the hungry and shelter the homeless.

MENU IDEAS BAKED GOODS
A look at new savory hand-held items and the bread basket of the future.

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Aggressive operators parlay luxury appeal into profits by promoting the uppermost niche in the beverage world.

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Here Comes Turkey

Just as demand for turkey is on the upswing in these low-cholesterol times—the U.S. government and other forecasters say this is so—a turkey restaurant franchise has popped up out of Philadelphia to meet the new consumer demand.

"Turkey will be the craze of the '90s," says Roger Bassett, who as founder and president of Bassett's Original Turkey is stepping up his franchising plans for a fast-food turkey empire he wants to believe will help wean America off the red meat burger.

Bassett's Original Turkey has four thriving turkey restaurants open in Pennsylvania and New Jersey, and says five more are under construction in Pennsylvania and Virginia as well—with the intent they be sold to franchisees.

He's looking to develop the concept primarily in regional mall food courts.

If the name Bassett sounds familiar, it is. Roger Bassett, 29, is a fifth-generation Bassett of the ice cream family that started Bassett's Ice Cream Company of Philadelphia 120 years ago. The young Bassett was managing one of the family ice cream shops at the Reading Terminal Market in Philadelphia in 1983 when he saw his future in turkey.

The original $1.95 turkey sandwiches are now priced at $4.40; nine other turkey sandwiches are sold as well, including a turkey club, turkey with cranberry sauce, and turkey salad sandwich. .

The first two franchisees to sign up, Dick Root and Stephen Duffett, are fast-food veterans, Root from Church's and Wendy's and Duffett from Domino's.**-M.A.**

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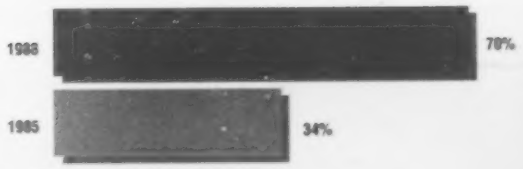
Franchisee Dick Root, one of the first to sign on for a Bassett's Original Turkey unit, serves up Bassett's turkey sandwiches at his new restaurant.

Eating-Out Behavior



Percentage of Consumers Who Like To Try New Restaurants 1988 versus 1985

Among 1,200 consumers polled in a survey by Technomic Inc., 70% said they would like to try new restaurants. This is a considerable increase from 1985, when only 34% of the respondents reported that they would like to try new restaurants. The implication is that consumers are willing to break their loyalties to old favorites.

SOURCE: TECHNOMIC Inc.

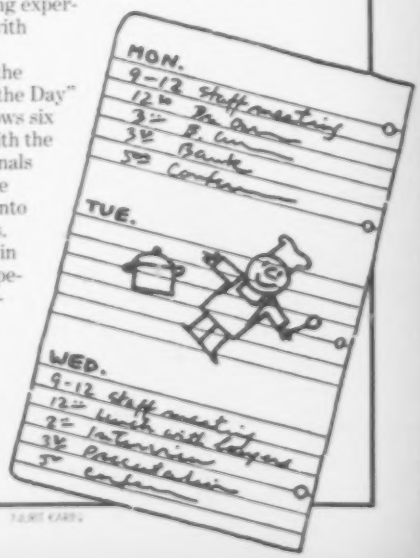
Chef For The Day

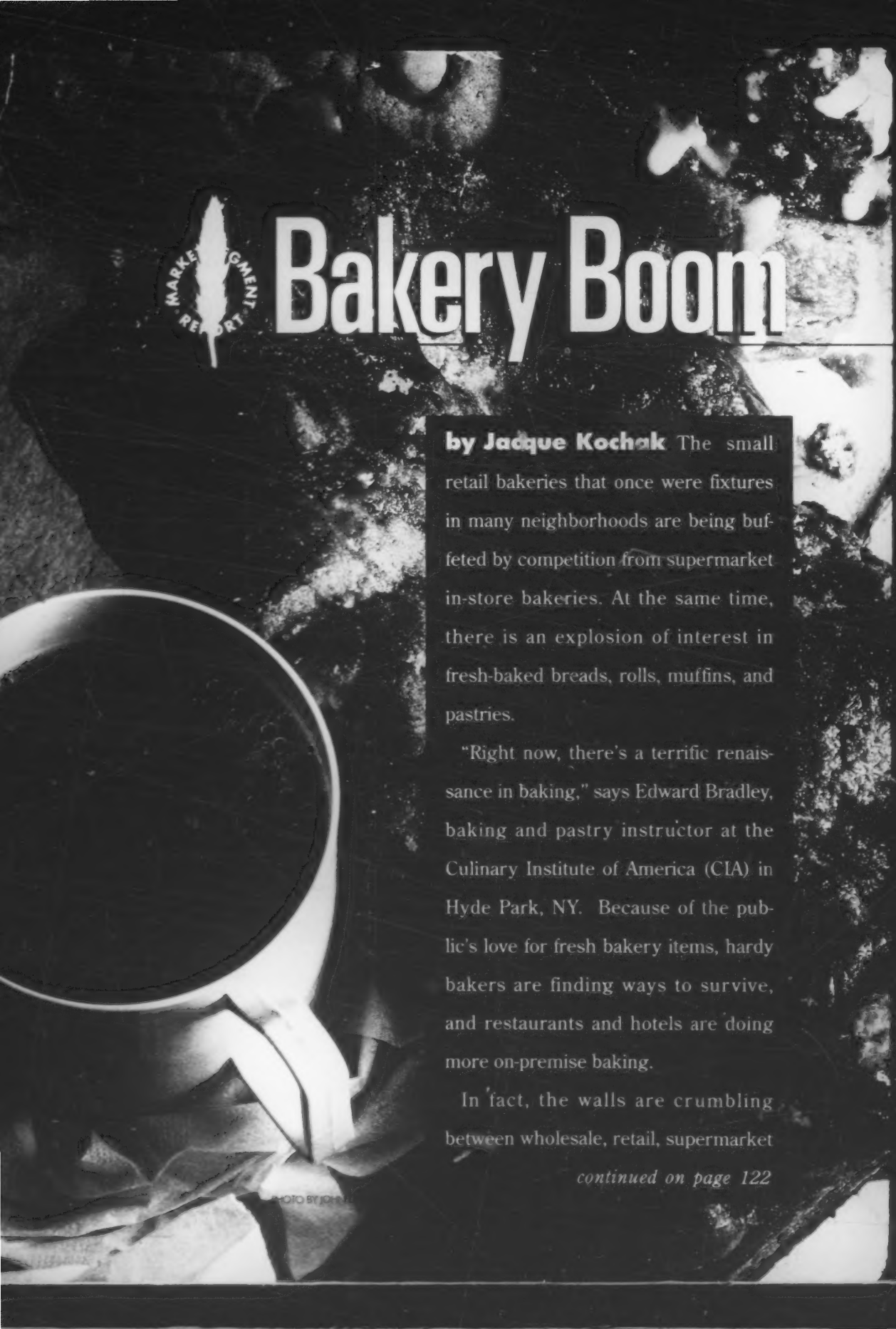
Some of the guests at Westin Hotel in Washington, DC, do more than spend a night or two in one of the rooms. They don chefs' hats and head for the hotel's kitchen, where they try their hands at preparing fine food. But they aren't left to fend for themselves. Executive chef Manfred Ochs and two other chefs share their cooking expertise and recipes with them.

It's all part of the hotel's "Chef for the Day" program that allows six guests to work with the kitchen professionals once a month. The group is divided into three sets of twos. One assists Ochs in preparing the appetizer, another creates the entree while the third group works on the dessert.

"It's not only great for the guests who get a free hands-on cooking class, but the chefs get to be more creative and try new recipes that may appear on the menu," says Heather Freeman, a hotel spokeswoman.

"Chef for the Day" dishes that ended up on the menu included black bean crêpe with crab meat and chocolate mousse in a buttercup.**-Lori Barker**





Bakery Boom

by Jacque Kochak The small retail bakeries that once were fixtures in many neighborhoods are being buffeted by competition from supermarket in-store bakeries. At the same time, there is an explosion of interest in fresh-baked breads, rolls, muffins, and pastries.

"Right now, there's a terrific renaissance in baking," says Edward Bradley, baking and pastry instructor at the Culinary Institute of America (CIA) in Hyde Park, NY. Because of the public's love for fresh bakery items, hardy bakers are finding ways to survive, and restaurants and hotels are doing more on-premise baking.

In fact, the walls are crumbling between wholesale, retail, supermarket

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MARKET SEGMENT REPORT

Bakery Boom

Fresh-baked kaiser rolls were recently introduced at Dunkin' Donuts to

and restaurant bakeries, and the most successful bakers today sell through several avenues.

"If the state of the baking industry were a dessert, it would be an upside-down cake," says Dan Malovany, a writer for *Bakery Magazine*. In order to prosper, bakers are donning new identities, becoming the proprietors of bakery/cafes and thus doubling or tripling volume.

They are adding wholesale divisions, providing their quality baked goods to other restaurants and even supermarkets. They are focusing on high-traffic locations, such as regional shopping malls, downtown shopping areas, and office complexes. They are seeking out unusual locations, such as hospitals and airports, in order to reach a greater concentration of customers.

One wholesale baker is even setting up baking kiosks, selling bread baked on the premises, in gourmet food stores, hotel lobbies, and restaurants.

THE STATE OF RETAIL. There are those who insist that small retail bakeries are a dying breed. "There may be a future for the mom-and-pop in a neighborhood bakery who do a lot of the work themselves, but as soon as they start to expand the overhead kills them," says Stuart Zaro, executive vice president of New York City-based Zaro's Breadbasket, a chain of 13 bakeries.

Joseph Zaro opened a bakery in the 1920s. By the 1960s, the Zaro family operated 20 bakeries scattered throughout the Bronx, New York City's northern borough. But deteriorating neighborhoods and a shortage of bakers forced closings.

The family's third generation, grandsons Stuart and Joseph, opened a Zaro's Breadbasket bakery in Manhattan's teeming Grand Central Station. Today it serves more than 15,000 customers a day an expanded menu of sandwiches, soups, salads, and frozen yogurt. Other high-traffic locations include Penn Station and the Port Authority Bus Terminal.

"With an average sale that is so small, we have to do a tremendous amount of volume," says Stuart Zaro. That need for extremely high volumes dictates site selection, and Zaro's is very picky. The company won't place units in residential areas, because executives view the rents as too high for the traffic. Such stringent site requirements mean that the company will never expand quickly. A lease was recently signed for a unit to open in New York City's bustling Rockefeller Center but not until 1991.

The company has solved the problem of finding trained bakers by training its own. They work at a central baking facility in the Bronx, where product is made and delivered to stores twice a day in finished form. Bagels, croissants, and special pastries are made at the plant, refrigerated, and sent out raw to the stores, where they are baked on premise.

NEED TO BE SPECIAL. Another route to survival in the retail bakery segment is to develop signature baked goods that will create an identity. A variation on this strategy has been adopted by specialty bake shops, offering everything from cinnamon rolls to cookies to muffins. An example is Randolph, MA-based Dunkin' Donuts. With some 2,000 units worldwide and systemwide sales topping $1 billion, the company's success is proof that a specialty baker can survive and prosper.

More restaurants and hotels are baking on premise.

Today, the company's emphasis is on distributing its donuts through nontraditional outlets. Some 2,500 C-stores now offer Dunkin' Donuts' donuts daily through franchisees.

"We're selling brand awareness," says Sidney Feltenstein, senior vice president of marketing. "We spend $35 million a year in advertising to build that awareness, and we find that selling through other outlets doesn't cannibalize our store sales."

Dunkin' Donuts has also franchised to Marriott Corp., which is opening Dunkin' Donuts outlets along toll roads and in airports. A Dunkin' Donuts kiosk just opened in the Los Angeles airport.

For some time, Dunkin' Donuts has been going through a process of adding to its product line in order to build lunch business. Fresh-baked kaiser rolls were recently introduced to boost lunch business.

In December, Dunkin' Donuts was purchased by London-based Allied-Lyons PLC (parent of the Baskin-Robbins ice cream chain) for $325 million. Weeks later, Allied-Lyons purchased the number-two donut chain, Mister Donut, from Minneapolis-based International Multifoods Corp. Conversion of Mister Donuts to Dunkin' Donuts is being considered on

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Bakery Boom

a unit-by-unit basis.

Mister Donut operates 475 units in the U.S. and 83 in Canada, all franchised, with systemwide sales in 1989 of $156 million.

THE CINNAMON ROLL ROLE. Fresh-ked cinnamon rolls have been the rage for the last few years. Seattle-based Cinnabon, a subsidiary of Restaurants Unlimited, has emerged as the biggest success story, with Kansas City-based T.J. Cinnamons a viable competitor.

Cinnabon now operates 130 units, about 50% of which are company-owned. Systemwide sales are approaching $40 million, says Cinnabon's director of marketing Gary Merritt. Cinnabon has been cautious about growth. Although its first bakery opened at the SeaTac Mall in Seattle four years ago, franchising wasn't started until two years ago. Today, franchised operations are located primarily on the East Coast.

"We are concentrating on quality and operations," says Merritt. "We could jeopardize both of those by expanding too rapidly." Unlike most of the other specialty retail bakers, Cinnabon has continued to focus almost exclusively on cinnamon rolls. Cinnabon is firmly entrenched in malls. "We need a certain amount of traffic, and the aroma of the product is a very important marketing tool," says Merritt.

A major competitor to Cinnabon is T.J. Cinnamons. Caught up in a race to establish market share, T.J. Cinnamons once reached a total of 200 units, but some of those have since closed. Systemwide sales have dropped to about $40 million from a high of about $50 million.

Many insist that small bakeries are a dying breed.

"We went through a period of huge growth, and ended up with some secondary locations. Now we're looking at slow, steady growth," says new president William Teel, who succeeds Ken Hill at T.J. Cinnamons. Hill remains as an owner of the company and serves on the board of directors.

The rapid growth of T.J. Cinnamons focused attention on the potential in the bakery segment, and observers have watched as the company has slowly evolved from a cinnamon roll shop into a specialty bakery. Originally serving only cinnamon rolls, T.J. Cinnamons has slowly expanded its line.

Teel notes that the company's wholesale business also continues to grow. As a test, T.J. Cinnamons has recently opened a unit in a supermarket. More of a full-line bakery, it offers an even broader line.

COOKIES. Atlanta-based Great American Chocolate Chip Co., with over 300 units, is typical of the shops that have proliferated in malls. Begun 13 years ago, the shops offer nine varieties of cookies along with three brownies and a jumbo cookie.

The company doesn't divulge sales figures, but director of marketing Steve Berman will say that the company is not branching out from cookies to offer a wider selection of baked goods because "we're making our dough." The company will continue to expand at a rate of about 10% per year, with locations only in malls.

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California's Il Fornaio chain has evolved into wholesale and retail bakeries and restaurants.

MARKET SEGMENT REPORT

Bakery Boom

"Our competition is with other companies for mall sites, not for customers once we're in the mall," says Great American's Berman.

"It's a real dogfight for locations in malls," adds Andy Thorburn, president of USA Treats. "There are only five or six good locations in a mall, and 40 companies want them."

Somerset, NJ-based Treats Corp., a licensee of Treats in Canada, now operates 12 units. The Canadian company operates some 120 bakery outlets north of the border. Because of the competition for mall space, Treats is seeking different sales outlets. For example, the company is supplying 10 varieties of Treats muffins to 100 AM/PM convenience stores on the West Coast. The muffins are baked off-premise under a licensing agreement with Mrs. Hall's Cookies, then trucked to the C-stores.

EVOLUTION OF BAKERY/CAFES. Treats is also starting to open bakery/cafes, serving fresh soups, salads, seafood, and pasta as well as frozen yogurt. Only one bakery/cafe is open so far.

"One of the main reasons for opening bakery/cafes is the greater availability of sites," says Thorburn. "The cost to start up a cafe is 30% to 50% higher, but sales are $400,000 to $500,000 a year instead of $200,000 to $300,000," he says. "And 20% goes to the bottom line either way."

A number of other companies have found that the transformation into bakery/cafes from retail bakeries has been a solution to several problems. Among them is Vienna, VA-based Vie de France, the American subsidiary of a French company.

Segment leader Cinnabon has been cautious about growth.

The route to survival is to develop signature items.

Vie de France currently operates 61 units, 55 of them bakery/cafes and the rest bakeries. The majority of the restaurants are either in downtown locations or in malls.

Vie de France bakeries, which evolved into bakery/cafes, originally functioned as advertisements for the company's wholesale products, says Tom Cox, vice president of corporate marketing for the company's three divisions. Therefore, it wasn't unduly concerned with the restaurants' profitability. The search for profitability began several years ago with the switch-over to bakery cafes; now the focus is on enhancing take-out sales from the bakery case, which now accounts for about 30% of sales.

Vie de France is also selling off restaurants in its core area in a move to enhance profitability. Its restaurants are clustered in the Washington/Virginia/Maryland corridor. At present, only one unit is franchised, but Vie de France is actively pursuing franchising.

Vie de France's expansion is made possible by the fact that frozen dough is shipped to units from baking plants that also service the parent company's extensive wholesale business. Then, baked goods are proofed and baked on-premise. The baking centers also have made it possible for Vie de France Restaurants' sister company, which sells wholesale to other restaurants, to set up some 1,500 mini-baking centers across the country, where bread is fresh-baked on the premises and sold from a kiosk.

Boston-based Au Bon Pain is another bakery/restaurant chain that utilizes frozen dough prepared at a central baking facility, which is then shipped to 80

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THE WAY THE COOKIE CRUMBLES

1989			1990 (estimate)		
Bakery segment	Units	Sales (in billions)	Bakery segment	Units	Sales (in billions)
Retail	22,500*[1]	$5.46	Retail	22,750[1]	$5.73
In-store	22,288*	$7.41*	In-store	23,007	$7.93
Wholesale	2,760*[2]	$27.12*[3]	Wholesale	2,780[3]	$28.0[3]
Foodservice	203,609*[2]	$8.27*	Foodservice	207,681[2]	$8.68
TOTAL SALES		$48.26*	TOTAL SALES		$50.34

Source: Bakery Production and Marketing, U.S. Commerce Dept., Food Marketing Institute.
[1] Individual retail units, including all multi-unit retail outlets.
[2] Projected number foodservice units baking on-premise or receiving product from dedicated commisaries.
[3] Wholesale includes bread/cake, cookie/cracker, and frozen bakery.
*Revised estimate.

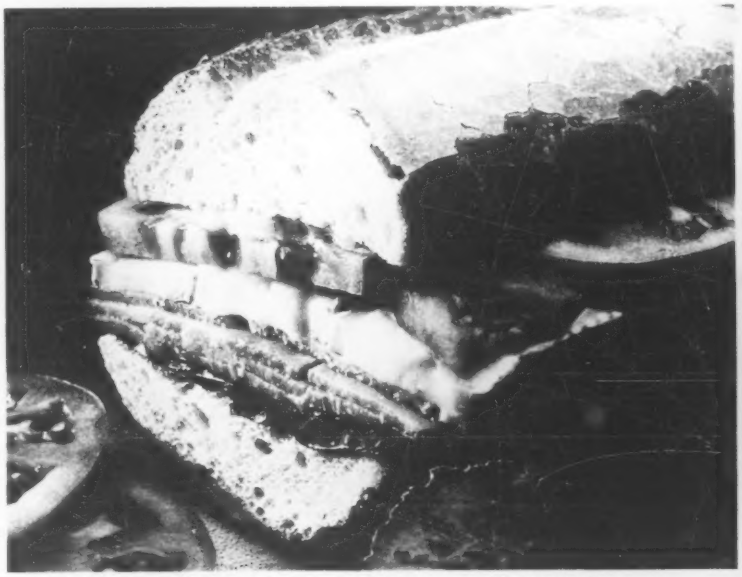
MARKET SEGMENT REPORT

Bakery Boom

units primarily located on the East Coast. Au Bon Pain's real growth began in 1981, when the company was purchased by partners Louis Kane and Ron Shaich. Kane's and Shaich's company originally consisted of retail bakeries, which evolved into bakery/cafes because of customer demand. "Customers sometimes came in with their own meat and cheese, and asked us to slice baguettes for them," says Kane.

The 2,500-sq.-ft. units are set up for maximum efficiency. At the Rockefeller Center unit in New York City, 15 cash registers service 1,000 people during a typical lunch rush. Service time is under three minutes. The check average is only $2.50. Yet the typical Au Bon Pain posts sales of almost $1.2 million.

Au Bon Pain trains its own bakers at the central baking facility, then trains employees on the store level. Store-level employees, however, don't have to be highly skilled; even the oven is computerized.



Boston-based Au Bon Pain utilizes frozen dough at a central baking facility.

BAKING IN HOTELS AND RESTAURANTS. "People are really getting excited about breads," says Marsha Guerrero, director of product development for San Francisco-based Il Fornaio Corp., a bakery chain. "They're coming around to the idea that a wonderful bread product on the table is a sign of things to come."

Trendy restaurants are upgrading their breads and offering a selection of interesting breads with dinner. The Fog City Diner in San Francisco goes so far as to charge $2.50 for an appetizer consisting of bread topped by a basil and leek mixture, baked and served hot.

California's Il Fornaio chain is a good example of a small, struggling retail bakery chain that evolved into a symbiotic mixture of wholesale bakeries, retail bakeries, and full-scale restaurants. The original Il Fornaio bakery chain was founded by the Veggetti family in Italy during the early 1970s. The concept was so successful that there are now more than 1,000 Il Fornaio bakeries throughout Europe.

Williams-Sonoma, the cookware company, brought Il Fornaio to the U.S. through a licensing agreement in 1980. When the company went public in 1983, Il Fornaio was divested and bought by Williams-Sonoma's chairman, Howard Lester, along with other investors.

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JUST DESSERTS

	Restaurants Serving Dessert			Customers Ordering Dessert		
	Total	Limited Menu	Full Menu	Total	Limited Menu	Full Menu
Lunch	88%	79%	94%	22%	20%	23%
Dinner	89%	76%	95%	34%	28%	36%
Take-home	73%	89%	67%	–	–	–

SOURCE: RESTAURANT BUSINESS RESEARCH

Bakery Boom

Il Fornaio had expanded dramatically by 1984, with 12 bakeries open in California. The problem was, the bakeries weren't making money. In 1987, the American branch of Il Fornaio reorganized, and Larry Mindel came on board as chairman and chief executive officer. Today, the company comprises six retail bakeries along with five production bakeries, which also supply Il Fornaio's own retail bakeries and four Il Fornaio upscale Italian restaurants.

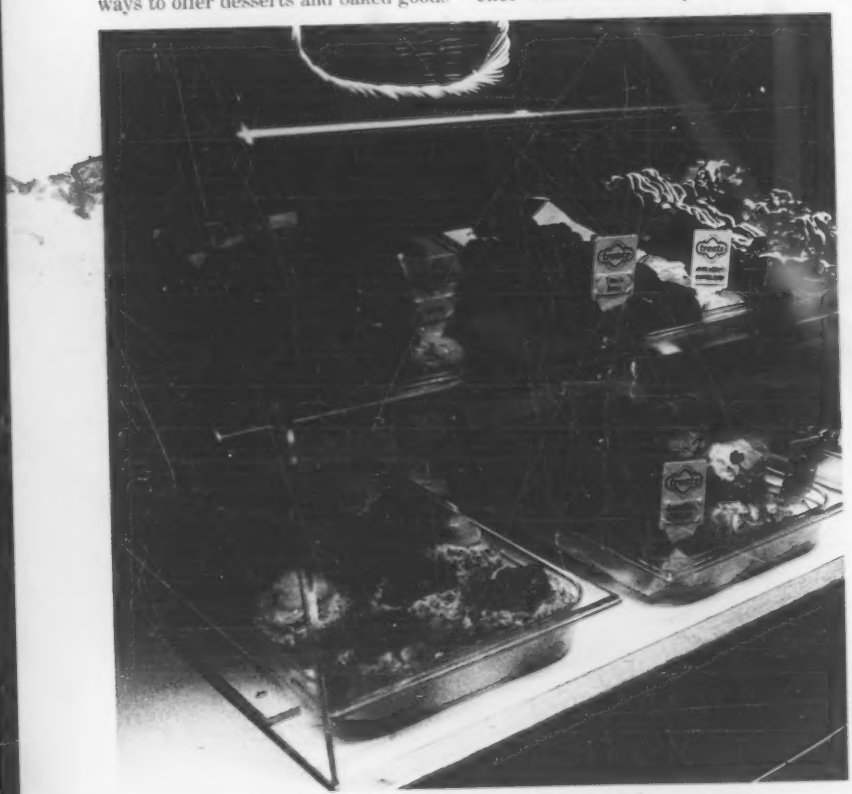
Customers do continue to show an interest in high-calorie pastries, but Joseph McKenna, pastry instructor at the CIA, predicts that eventually chefs will figure out ways to offer desserts and baked goods that are lighter and more nutritious.

"In the CIA's St. Andrews Cafe, we make desserts that are very low-calorie," he says. For example, the cafe makes a glace with skim ricotta cheese instead of egg yolks.

SIGNATURE DESSERTS. Just as breads and rolls are increasing in importance, so are desserts. At the Sagamore, an Omni Classic resort and conference center on Lake George in Bolton Landing, NY, such specialties as "marzipan sushi" are offered in its gourmet dining room, The Trillium. Marzipan sushi is a chocolate cake with various cream fillings, rolled in thin sheets of marzipan.

The Sagamore employs one pastry chef with a bake-shop crew of nine, according to food and beverage director Tony Shill. He points out that restrictions on space and the availability of skilled labor mean limitations on scratch baking.

Customers want more whole grain and crusty breads.



Somerset, NJ-based Treats Corp. has 12 units, with 10 more stores under development.

A SHORTAGE OF BAKERS. Because of the renewed interest in baking, more young people are once again looking at baking as a career. And there will be plenty of jobs for them once they are trained.

"The industry is screaming for skilled baking and pastry professionals," says Mark Erickson, director of culinary education at the CIA.

Because many restaurants can't support a full-time baker, there will be plenty of opportunity for "free-lance" bakers, says the CIA's baking instructor, Edward Bradley. Because of the demand, the CIA just opened up a new School of Baking and Pastry, with seven kitchens. The school also just received approval for a two-year degree.

THE FUTURE. Undoubtedly, fresh baked goods will continue to grow in popularity. Restaurants and hotels will do more and more on-premises baking, supplementing their signature items with bakery products baked from frozen dough provided by wholesale bakers. Specialty retail bakers will continue to seek out high-traffic locations and emphasize quality.

And, say some observers, we may even see a resurgence of the neighborhood bakery, if that neighborhood bakery is strategically located, serves very high-quality goods, and supplements its business by selling wholesale.

"Everything goes around," says Dan Dugan, Vie de France's retail marketing manager. "More corner bakeries than ever have closed this year, but I think we'll see a comeback." RB